

KENTUCKY ECONOMIC INDICATORS

March 2005 Indicators as of May 26, 2005

KY Composite Index of Leading Indicators decreased 2.3 percent for March.

- The Leading Index decreased for the first time in six months.
- The Leading Index rose by 0.3 percent over the same month last year.
- Component indicators leaned negative, losers over gainers, 3:2.
 - + KY Labor Intensity Index increased 1.0 percent.
 - The US Leading Index decreased 7.0 percent.
 - The Index of KY Initial UI Claims decreased 7.2 percent.
 - + US Retail Sales increased 4.3 percent.
 - The Louisville Help Wanted Index decreased by 25.6 percent.

Component weights for March are 50.08, 23.37, 14.61, 10.26 and 1.68 respectively.

KY Composite Index of Coincident Indicators increased 1.2 percent for March.

- The Coincident Index was positive for the second consecutive month.
- Same-month-last-year growth is positive for the twentieth consecutive month at 2.3 percent.
- Component indicators leaned positive, gainers over losers, 2:1.
 - + KY Total Nonagricultural Employment increased 2.4 percent.
 - + US Industrial Production Index increased 1.8 percent.
 - US Personal Income Less Transfers decreased 0.2 percent.

Component weights for March are 32.60, 29.82 and 26.72 respectively. Component weights do not sum to one because the two US components were discounted to allow the Kentucky component more weight.

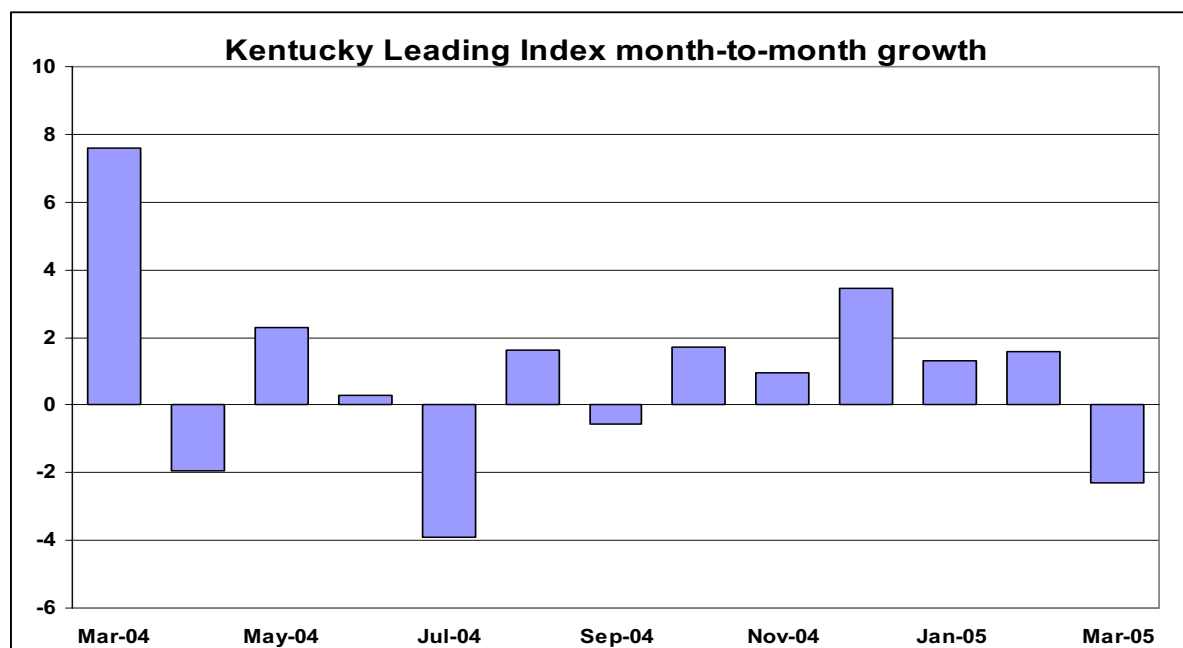
Three of the five component indicators changed directions for March, continuing a trend of very erratic behavior in the Leading Index components. Interestingly, US Retail Sales which was the most erratic series during the first half of 2004, is now the most stable, as it has been positive for the last seven consecutive months. In fact, the US Retail Sales series has returned to its exceptionally high-growth trend line which it experienced towards the end of the 1990s. The Leading Index's two-tenths of a point loss for March exactly offset the gains made in February. The series (113.7) is still well ahead of its position just a year ago (113.3). If the Leading Index continues its current trend, then the series will surpass its 2001 cycle peak by September of this year.

After two years of nearly-continuous, solid growth, the Kentucky Labor Intensity Index has recovered over 43 percent of its 2001 recession losses. This is an encouraging sign for Kentucky as the national indicators continue to disappoint. The Louisville Help Wanted Index has not yet shown clear signs of recovery. The Help Wanted Index displayed similar behavior during the 1980 recession, strong downward movement, which persisted long after other variables hit bottom. The Louisville Help Wanted Index bottomed out in September of 1982 and did not return to its previous peak until the mid-1990s. The Louisville Help Wanted Index is historically the most volatile of the five Leading Index components and therefore carries the least weight in the Index.

The most erratic component in the last five months has been the Kentucky Index of Initial UI Claims. The Kentucky Index of Initial UI Claims is made up of two components, Kentucky First Pays and US Total Initial Claims. The Kentucky First Pays series has been declining modestly and steadily for the last four months. The US series has experienced extreme swings over the last four months and is the source for much of the recent variance in the Kentucky Index of Initial UI Claims series. Seasonally adjusted US Total Initial Claims increased by 30,000 persons for March. This converts to over 200 percent annualized growth and hence why the Kentucky Index has fallen so strongly for March.

Workers displaced during the 2001 recession continue to find jobs in the nonagricultural sector, as Nonagricultural Employment continues to thrive. Kentucky added 4,000 nonagricultural positions in March. Kentucky Nonagricultural Employment peaked in March 2000 at 1,831,600 jobs. The trough was reached in July 2003 with 1,777,400 jobs, a loss of over 54,000 jobs. Kentucky has now recovered 54.8 percent of those lost jobs. Substantial gains continue to outweigh the minor setbacks every few months. Kentucky Manufacturing Employment on the other hand, peaked in May of 2000, close to when Nonagricultural Employment peaked. Manufacturing employment has lost 46,900 jobs since the beginning of the recession. It is not yet clear if Manufacturing Employment has reached bottom.

Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the University of Kentucky Center for Business and Economic Research *Kentucky Annual Economic Report, 2000*.



About the Indicators

Kentucky Reference Series

Inflation-adjusted personal income less transfer payments and policy-adjusted general fund tax receipts are combined to form the GOEA composite reference series.

Kentucky Leading Indicators

- **GOEA Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: Lumber products, chemical and allied products, rubber and plastic products, fabricated metals, and transportation equipment.
- **GOEA Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky UI claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- **Louisville Help-wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.
- **U.S. Manufacturing and Trade Sales:** This series outperformed Kentucky sales tax receipts and U.S. total retail sales. Current manufacturing and trade sales help form the basis for business expectations for the immediate short run. Since production and investment do not occur instantaneously, the formation of expectations (manifested through current manufacturing and trade sales) should slightly lead the business cycle.
- **GOEA U.S. Leading Index:** We eliminated two variables, UI Claims and weekly hours, from the U.S. leading index since we already use the Kentucky equivalents. The remaining eight components of the U.S. leading index were tested, eliminating both the interest rate spread and the slower deliveries diffusion index of vendor performance. The remaining six components were then re-indexed by GOEA.

Table Notes:

- 1) Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- 2) More information is available on our website, www.osbd.ky.gov

Office of State Budget Director

Room 284, Capitol Annex
Phone: 502-564-7300 - taj@mail.state.ky.gov

Frankfort, Kentucky 40601-3453

**SELECTED KENTUCKY ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

2004 **2005**

	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
KY Leading Index (1992=100)	113.3	113.1	113.3	113.3	113.0	113.1	113.0	113.2	113.3	113.6	113.7	113.9	113.7
% Chg Previous Month SAAR	7.6	-1.9	2.3	0.3	-3.9	1.6	-0.6	1.7	1.0	3.4	1.3	1.6	-2.3
% Chg Same Month Last Year	2.7	2.8	2.8	2.5	1.7	1.6	0.9	1.4	1.2	1.3	1.3	1.2	0.3
KY Coincident Index (1992=100)	129.6	130.1	130.4	130.3	130.7	130.9	130.8	131.4	131.6	133.4	132.2	132.5	132.6
% Chg Previous Month SAAR	-0.2	4.5	2.6	-0.8	3.4	2.3	-1.0	5.9	1.5	18.2	-10.2	2.4	1.2
% Chg Same Month Last Year	2.0	2.6	2.6	2.4	2.5	2.6	2.2	2.4	2.1	3.3	2.4	2.2	2.3
KY Nonag Employment (000s)	1,792.7	1,796.4	1,793.6	1,796.5	1,789.7	1,796.7	1,798.6	1,801.0	1,800.7	1,802.7	1,802.4	1,803.6	1,807.1
% Chg Previous Month SAAR	1.3	2.5	-1.9	2.0	-4.4	4.8	1.3	1.6	-0.2	1.3	-0.2	0.8	2.4
% Chg Same Month Last Year	0.6	1.0	0.7	1.0	0.7	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.8
KY Mfg Employment (000s)	264.3	264.2	264.5	264.2	258.2	264.6	264.4	265.5	264.7	264.2	264.6	264.5	265.1
% Chg Previous Month SAAR	-0.9	-0.5	1.4	-1.4	-24.1	34.2	-0.9	5.1	-3.6	-2.2	1.8	-0.5	2.8
% Chg Same Month Last Year	-0.9	-0.4	-0.2	-0.1	-2.4	0.1	0.0	0.5	0.2	-0.2	0.0	0.0	0.3
KY Unemployment Rate (%)	5.6	5.7	5.7	5.7	5.6	5.7	5.8	5.7	5.9	6.0	6.0	6.2	6.2
KY Index of Initial UI Claims	102.1	102.2	102.3	102.5	101.8	102.0	102.5	103.0	102.4	103.1	102.8	104.0	103.4
% Chg Previous Month SAAR	9.0	1.0	1.4	2.3	-8.3	2.7	6.2	6.0	-6.6	7.9	-2.8	14.7	-7.2
% Chg Same Month Last Year	3.5	3.6	3.2	3.3	1.9	1.7	2.4	1.9	1.1	1.7	1.0	2.6	1.2
KY Labor Intensity Index (1992=100)	104.9	105.1	105.1	105.0	104.9	105.1	105.1	105.1	105.3	105.3	105.7	105.6	105.7
% Chg Previous Month SAAR	2.0	1.4	0.1	-0.7	-1.6	2.5	0.7	0.1	1.4	0.6	3.9	-0.9	1.0
% Chg Same Month Last Year	0.9	1.1	1.0	1.0	0.6	0.7	0.7	0.7	0.7	0.8	1.0	0.8	0.7
Louisville HWI (1992=100)	56.0	51.0	48.0	51.0	45.0	47.0	40.0	41.0	42.0	41.0	42.0	41.0	40.0
% Chg Previous Month SAAR	24.1	-67.4	-51.7	107.0	-77.7	68.5	-85.6	34.5	33.5	-25.1	33.5	-25.1	-25.6
% Chg Same Month Last Year	-3.4	2.0	2.1	4.1	-10.0	0.0	-45.2	-18.0	-14.3	-28.1	-16.0	-25.5	-28.6
GF Total Tax Receipts (\$ mil)	509.3	721.1	479.5	633.7	519.1	513.4	655.0	563.6	587.9	709.7	659.6	500.8	568.6
% Chg Same Month Last Year	16.3	3.5	15.1	2.6	10.2	11.7	4.1	6.3	10.7	5.0	13.1	8.3	11.7
GF Sales & Use Receipts (\$ mil)	185.0	217.5	205.6	199.7	226.1	211.7	206.6	224.0	201.1	217.7	271.4	176.3	200.1
% Chg Same Month Last Year	11.7	8.9	8.1	4.2	8.6	7.3	3.1	5.0	1.0	4.7	8.8	7.5	8.2
GF Income Tax Receipts (\$ mil)	142.0	366.6	189.6	270.2	224.2	245.2	272.2	249.9	230.2	259.0	252.6	231.5	176.1
% Chg Same Month Last Year	21.4	3.4	19.8	0.8	8.5	9.4	-0.3	9.5	2.8	4.6	21.9	6.6	24.0

**SELECTED U.S. ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

2004

2005

	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
US Leading Index (1982=100)	115.7	115.8	116.3	116.2	116.0	115.7	115.4	115.1	115.4	115.8	115.5	115.4	114.7
% Chg Previous Month SAAR	9.8	1.0	5.3	-1.0	-2.0	-3.1	-3.1	-3.1	3.2	4.2	-3.1	-1.0	-7.0
% Chg Same Month Last Year	4.7	4.6	4.2	3.8	2.9	2.3	1.9	1.2	1.2	1.3	0.7	0.5	-0.9
US Coincident Index (1992=100)	116.6	116.9	117.2	117.2	117.5	117.7	117.7	118.2	118.4	119.8	119.1	119.2	119.4
% Chg Previous Month SAAR	5.3	3.1	3.1	0.0	3.1	2.1	0.0	5.2	2.0	15.1	-6.8	1.0	2.0
% Chg Same Month Last Year	2.5	2.8	2.8	2.5	2.5	2.8	2.5	2.7	2.5	3.5	2.8	2.7	2.4
US Nonag Employment (mil)	130.8	131.1	131.4	131.5	131.6	131.8	131.9	132.2	132.3	132.4	132.6	132.9	133.0
% Chg Previous Month SAAR	3.0	3.1	2.3	1.0	0.8	1.7	1.2	2.6	1.2	1.4	1.1	2.7	1.3
% Chg Same Month Last Year	0.7	1.0	1.2	1.3	1.3	1.5	1.5	1.6	1.6	1.7	1.7	1.8	1.7
US Unemployment Rate (%)	5.7	5.5	5.6	5.6	5.5	5.4	5.4	5.5	5.4	5.4	5.2	5.4	5.2
US Initial Claims for UI (000s)	344.5	345.5	343.5	339.7	342.4	340.5	344.9	338.6	334.1	330.0	330.1	307.4	337.8
% Chg Previous Month SAAR	-33.0	3.5	-6.7	-12.5	10.0	-6.5	16.7	-19.8	-14.8	-13.8	0.4	-57.5	210.1
% Chg Same Month Last Year	-19.0	-21.2	-19.3	-19.0	-14.4	-14.8	-13.4	-11.0	-8.9	-8.7	-7.0	-13.7	-1.9
US Industrial Production Index	114.1	114.7	115.5	115.1	115.9	116.0	115.7	116.6	116.9	117.9	117.8	118.3	118.5
% Chg Previous Month SAAR	-3.3	6.8	8.7	-4.2	8.8	1.1	-3.3	10.1	3.1	10.3	-1.6	6.1	1.8
% Chg Same Month Last Year	3.2	4.7	5.4	4.7	4.8	5.0	3.9	4.6	3.8	4.4	4.0	3.4	3.9
US Personal Inc. Less Trans. (bil 92\$)	7,558.0	7,596.9	7,614.5	7,612.0	7,667.1	7,676.2	7,666.1	7,721.0	7,735.3	8,064.0	7,810.6	7,818.4	7,816.9
% Chg Previous Month SAAR	1.4	6.4	2.8	-0.4	9.0	1.4	-1.6	8.9	2.2	64.8	-31.8	1.2	-0.2
% Chg Same Month Last Year	3.2	3.4	3.0	2.7	3.2	3.2	2.9	3.1	2.6	6.8	3.6	3.6	3.4
CPI, All Urban (1982-84=100)	187.3	187.7	188.8	189.3	189.2	189.3	189.6	190.7	191.2	191.2	191.3	192.0	193.2
% Chg Previous Month SAAR	5.3	2.6	7.3	3.2	-0.6	0.6	1.9	7.2	3.2	0.0	0.6	4.5	7.8
% Chg Same Month Last Year	1.7	2.3	3.0	3.2	2.9	2.7	2.5	3.2	3.6	3.4	2.9	2.9	3.2
US Retail Sales (bil 84\$)	320.8	317.7	323.0	321.3	324.0	323.7	329.4	332.3	332.4	336.6	336.8	339.0	340.2
% Chg Previous Month SAAR	29.5	-11.0	22.1	-6.2	10.6	-1.2	23.5	10.8	0.4	16.2	0.7	8.1	4.3
% Chg Same Month Last Year	7.9	6.9	9.0	6.6	6.6	4.8	7.6	8.6	7.3	8.9	8.0	8.0	6.0
Manufacturing & Trade Sales (000s)	921.9	916.1	916.9	920.2	925.4	928.7	930.5	931.6	933.5	947.3	950.4	942.6	*949.3
% Chg Previous Month SAAR	35.6	-7.4	1.1	4.4	7.0	4.4	2.3	1.5	2.4	19.3	4.0	-9.5	8.8
% Chg Same Month Last Year	8.8	8.0	7.5	6.4	5.5	6.4	5.9	5.5	5.1	5.8	6.3	4.9	3.0
US Consumer Expectations (1966=100)	88.8	87.3	81.6	88.5	91.2	88.2	88.0	83.8	85.2	90.9	85.7	84.4	82.8
% Chg Previous Month AR	4.1	-18.5	-55.5	164.9	43.4	-33.1	-2.7	-44.4	22.0	117.5	-50.7	-16.8	-20.5
% Chg Same Month Last Year	27.6	10.1	-10.7	2.4	9.0	6.9	8.9	1.0	-3.3	1.2	-14.4	-4.6	-6.8
Ave. Prime Interest Rate (%; NSA)	4.00	4.00	4.00	4.00	4.25	4.42	4.58	4.75	4.93	5.14	5.25	5.49	5.58

*ARIMA estimation